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STATE FOR EUR/NCE DAVID KOSTELANCIK AND MICHAEL SESSUMS
USDOC FOR 4232/ITA/MAC/EUR/JBURGESS AND MWILSON
TREASURY FOR OASIA MATTHEW GAERTNER
FRANKFURT FOR TREASURY JIM WALLAR

E.O. 12958: N/A

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SUBJECT: Poland's Monetary Policy Council Continues
Interest Rate Cuts

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1. (SBU) Poland's Monetary Policy Council (MPC) cut interest rates for the fifth time in 2005, reducing all by 25 basis points (bp) except for the rediscount rate, which dropped by 50bp. As of September 1, basic Central Bank rates are: lombard rate 6.0 percent, rediscount rate 4.75 percent, reference rate 4.5 percent, and deposit rate 3.0 percent. The Council decided to maintain an easing bias for monetary policy. The next MPC meeting on interest rates will take place on September 27 and 28.

2. (U) In its statement issued after the August meeting, the Council noted the risk of higher inflationary pressure related to increasing oil and gas prices. The MPC also commented that the situation on the fuel market may have negative effects on economic growth in Poland. Nevertheless, the Council does not see an immediate threat to the 2.5 percent inflationary target for 2006.

3. (U) The current level of real interest rates in Poland is 3.5 percent. This is considerably higher than in the Euro zone and the U.S. and slightly higher than in neighboring Hungary, where real interest rates continue to drop and are close to three percent after the latest cuts on August 23.

4. (SBU) Comment: While there is room for further interest rate cuts in Poland, the market does not anticipate another cut in September. Parliament will debate next year's budget in September. The Monetary Policy Council usually refrains from making decisions on interest rates until budgetary discussions are completed.

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